

Briefing: Third Contract Extension Offer By the State Water Project Contractors

Contract Extension Committee
August 7, 2013

Water Supply Contract Extension
Negotiation Meeting #4
August 7, 2013
10:00 AM – 3:00 PM
Tsakopoulos Library Galleria
828 I Street
Sacramento, CA 95814



SWCCE-0023
August 6, 2013
Version 4

Briefing Agenda



Financial Management

Phase 1: SWRDS Officers (Organization)
Phase 2: SWRDS Financial Committee
Phase 3: Work Plan for Implementation
Phase 4: Completion of Implementation



Accounts (Funds)

1. General Operating Account (GOA)
2. SWRDS Reinvestment Account (SRA)
3. SWRDS Support Account (SSA)



Simplification of Billing

- Replacement Accounting System (RAS)
- Implementing Freeze-Go Billing Methodology
- Definition of Capital Cost Recovery
- 1(hh) Facilities Authorized for Bond Financing



Term of Contract

Extending the Water Supply Contracts Beyond 2035

Financial Management



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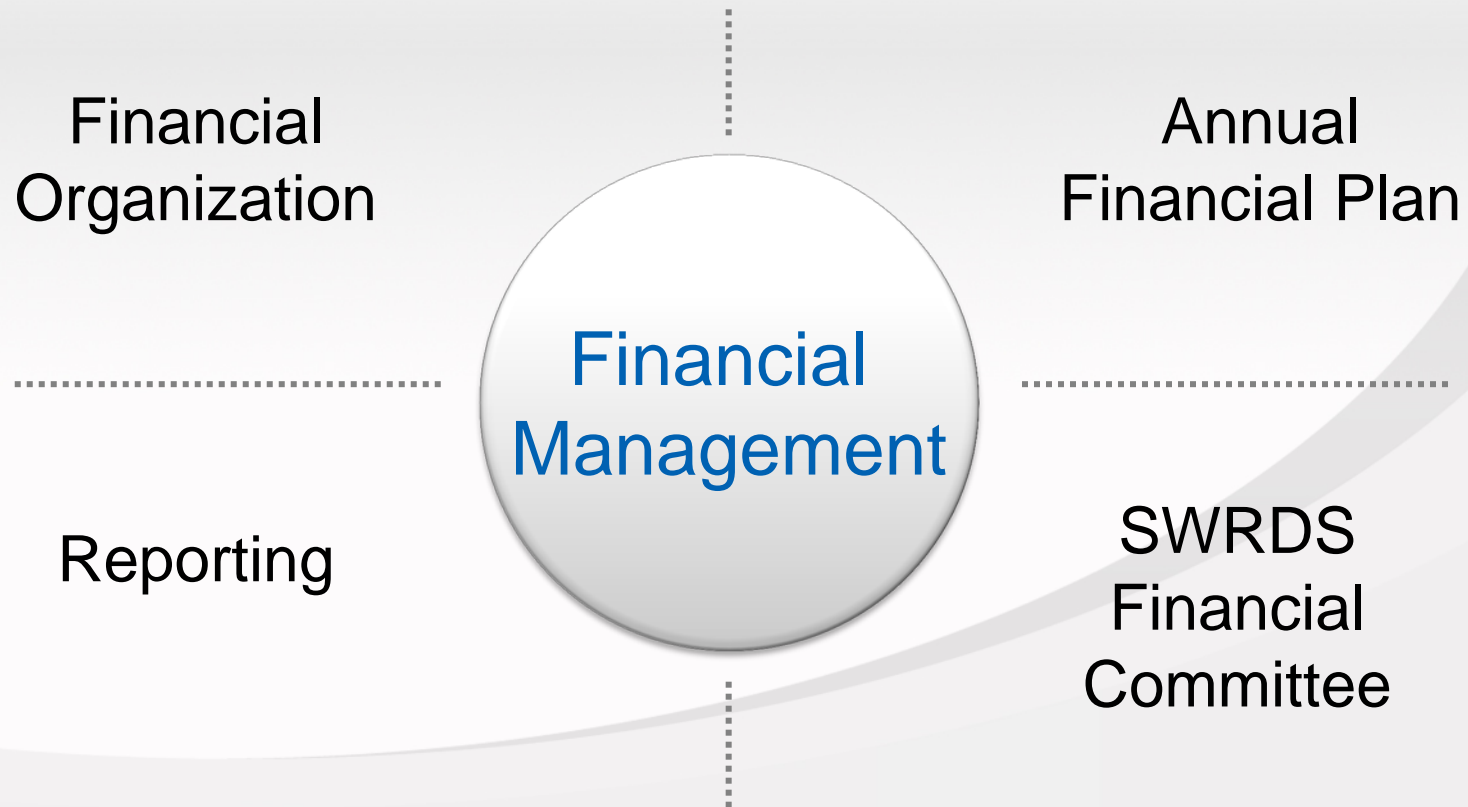


Term of Contract

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Goals: Financial Management Enhancements

Enhance the Fiscal Policies and Administrative Measures for Operation of the SWRDS



Phased Implementation of Enhancements

Financial Management Enhancements:

Phase 1 – SWRDS Officers

- General Manager – SWRDS Chief Executive Officer (CEO)
- SWRDS Chief Financial Officer (CFO)
- SWRDS Chief Operating Officer (COO)

Phase 2 – SWRDS Financial Committee

- **Charter – Approved by DWR Director & 80% of Table A**
- **Composition**
 - DWR & SWP Contractor Representatives
- **Purpose**
 - 1) Insure Development and Implementation of Work Plan Developed by CFO
 - 2) Financial Guidance for the Life of the SWRDS Enterprise Fund

Phased Implementation of Enhancements (cont.)

Financial Management Improvements

Phase 3 – Work Plan

- Work Plan Submitted to and Approved by Committee by Dec. 31, 2015
- Work Plan Minimum Objectives:
 1. Blueprint or How DWR will Consolidate All SWRDS Financial Functions within a Single Organization
 2. How to Take Advantage of Current Capabilities to Provide Reports (Near-Term)
 3. How to Maximize SAP Financial System to Meet Reporting Requirements
 4. Reporting Requirements

Phase 4 – Complete Consolidation of SWRDS Management Under GM

- Complete Implementation of Financial Management Enhancement Work Plan by December 31, 2017

Accounts (Funds) within SWRDS



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Purpose of Accounts within SWRDS

Current SWRDS Account

Establish New SWRDS Accounts

General Operating Account (GOA)

- Used for any cash-flow deficiencies and/or emergencies resulting from a chargeable SWRDS water supply purpose

SWRDS Reinvestment Account (SRA)

- Provides a SWRDS revenue stream for the SSA by reinvesting the SRA balance of Article 51(e)

SWRDS Support Account (SSA)

- Provides funds to pay for System costs with no revenue sources
- Provides cash-flow reserves for cash deficiencies caused by non-chargeable purpose under the Water Supply Contract

General Operating Reserve (GOA)

GOA	SWC Offer
Funding Level	<ul style="list-style-type: none">▪ Increase from \$22.7M to \$50M▪ Completion of Financial Management Enhancements:<ul style="list-style-type: none">Phase 1: \$ 50M Increased to \$ 60MPhase 2: \$ 60M Increased to \$ 70MPhase 3: \$ 70M Increased to \$100MPhase 4: \$100M Increased to \$150M
Funding Source	<ul style="list-style-type: none">▪ Pre-2035: 51(e) Revenue▪ Post-2035: Investment Income SRA
Funding Rate	<ul style="list-style-type: none">▪ From \$2M/Annually to Unlimited
Funding Priority	<ul style="list-style-type: none">▪ 1st Priority After Annual RMC
Replenishment	<ul style="list-style-type: none">▪ Normal Statement of Charges
Interest Earnings	<ul style="list-style-type: none">▪ Refund to SWP Contractors
Periodic Adjustments	<ul style="list-style-type: none">▪ Subject to the SWRDS Financial Committee

General Operating Reserve (GOA)

- Focus is on “Cash” Reserves
- Retaining Contract Provisions:
 - 30-Day Grace Period
 - Supplemental Billing Provisions
 - Variable Calculation Based on Water Delivered
 - Variable Billings Timing and Method of Payment

SWRDS Reinvestment Account (SRA)

SRA	SWC Offer
Fund Purpose	To Generate Investment Income, Providing a Secure SWRDS Revenue Stream for the SSA
Funding Level	TBD% of 51(e) Revenues
Funding Sources	51(e) Revenues
Funding Rate	Annual Allowable %
Funding Priority	1 st Priority After SSA Funding
Replenishment	N/A
Periodic Review & Adjustment	N/A
Investment Earnings	Pre-2035: Build SRA Fund Balance Used to Generate Investment Income Post-2035: Annual Revenue Source for SSA Replenishment

SWRDS Reinvestment Account (SRA)

- SRA Investments Subject to SWRDS Financial Committee
- Authorized SRA Investments in Order of Priority:
 1. Reinvestment in SWP Capital Facilities
 - @ Prevailing Tax-Free Municipal Bond Market Rate
 - 10 – 50 Year Maturity Ranges
 2. SWRDS Commercial Paper Program
 3. Allowable State Investment Instruments

SWRDS Support Account (SSA)

SSA	SWC Offer
Fund Purpose	<ul style="list-style-type: none">▪ Provides funds to pay for System costs with no revenue sources.▪ Provides cash-flow reserves for cash deficiencies caused by a non-chargeable purpose under the Water Supply Contract.
Funding Level	<ul style="list-style-type: none">▪ \$60 Million
Funding Sources	<ul style="list-style-type: none">▪ Initial Funding: 51(e) Revenue
Funding Rate	<ul style="list-style-type: none">▪ Annual Replenishment up to Maximum Fund Level
Funding Priority	<ul style="list-style-type: none">▪ 1st Priority After the Revised GOA Priority
Replenishment	<ul style="list-style-type: none">▪ Pre-2035: 51(e) Revenue▪ Post-2035: Investment Earnings from SRA
Periodic Review & Adjustment	<ul style="list-style-type: none">▪ Subject to the SWRDS Financial Committee
Investment Earnings	<ul style="list-style-type: none">▪ Retained in SSA to Reduce Annual SRA Needs

SWRDS Support Account (SSA)

- Criteria For Contractors' Agreement to a SWRDS Support Account (SSA):
 1. Creation of SWRDS Reinvestment Account (SRA).
 2. Define SSA as the Revenue Streams for the Annual Costs of the System's O&M that are Non-Chargeable Under the Water Supply Contracts.
 3. Redirect the Uses for the Capital Facilities Account to the SSA, Eliminating the Need for the Capital Facilities Account.

Illustration of SRA and SSA

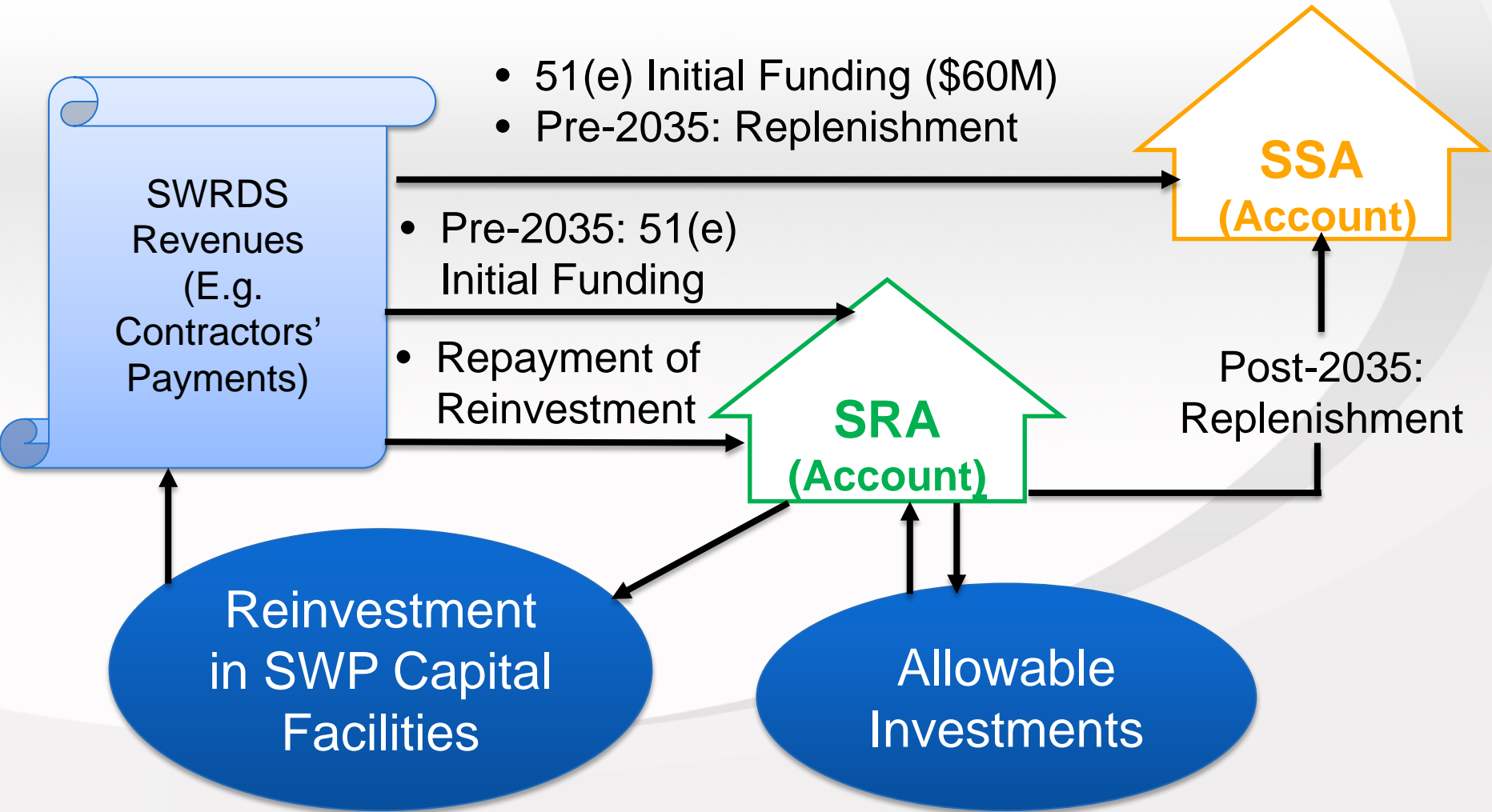
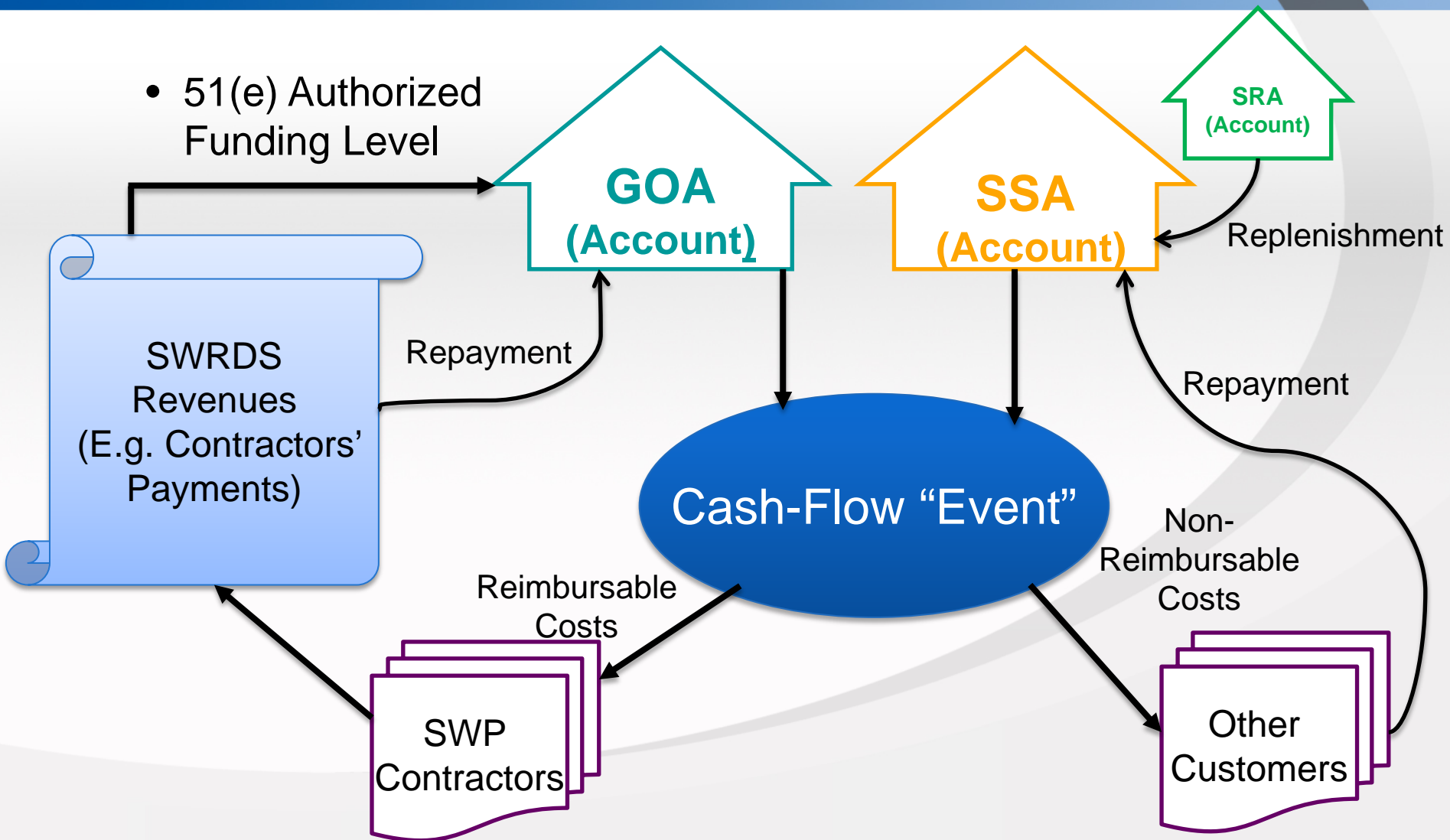


Illustration of GOA and SSA

- 51(e) Authorized Funding Level



Accounts Change Priorities

Summary of Change in the Priorities Set Forth in Article 51(e):

Priorities	
SSA Authorized Use	Non-Chargeable “System” O&M and Replacements
SSA Authorized Use	State Water Facilities Capital Account
	Annual Rate Reductions
	General Operating Reserve (Authorized Funding Level)
NEW	SWRDS Support Account (SSA) (\$60M, Pre-2035 Replenishment)
NEW (___%)	SWRDS Reinvestment Account (SRA)
(___%)	Amount for Additional Rate Reductions:
	Make-up Shortfalls
	Urban contractors
Eliminate	Additional Rate Reduction (24.7%, 75.3%)
SSA Authorized Use	Amount for Additional System Purposes

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3) Simplification of Billing

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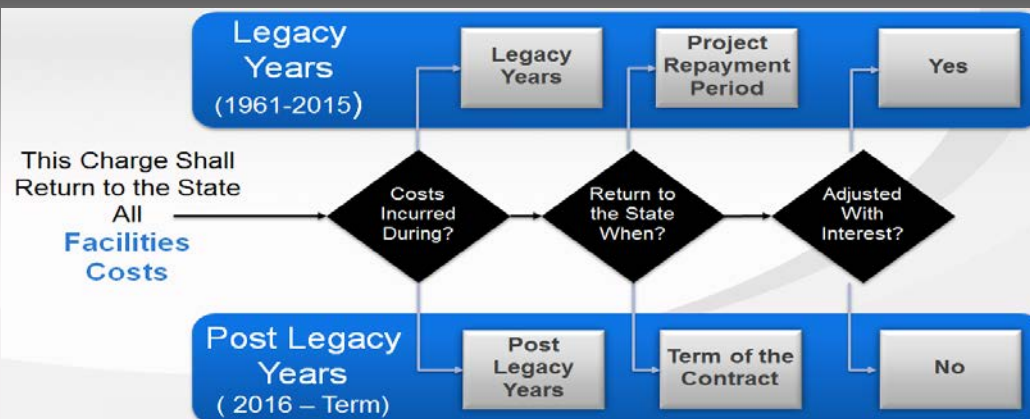
Legacy Year Costs (1961- 2015)

- Continue Reimbursement Consistent With Current Contract Terms For All Costs Incurred Prior to the Implementation Date as Defined by an Amendment

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Post-Legacy Year Costs (2016-Term)

- As of the Implementation Date Defined by an Amendment, Convert the Basis of Reimbursement for Future Costs to a Pay-As-You-Go Methodology
- Contractors Pay Annual
 - Actual & Estimated Costs
 - Debt Service; Principal, Interest, Bond Cover



3) Simplification of Billing

■ Summary of Simplification Measures:

1. Implement Freeze-Go

- No Interest on Over/Unders Post-Implementation (Future Redeterminations)
- Project Interest Rate is Fixed at 4.610%

2. Eliminate the Replacement Accounting System (RAS)

- Refund Unencumbered Balance to Contractors

3. Define Post-Implementation (2015) Terms:

- Repayment of Costs
- Repayment of 'Actual Debt Service'
 1. 100% Financing of SWRDS Capital Costs
 2. Various Financing Methods (Bonds, SRA)

4. Expanding 1(hh), Facilities Authorized for Bond Financing

1. Finance all Repairs, Additions, and Betterments Regardless of when Facility was Built
2. Any Facility Approved by 80% of Affected Contractors

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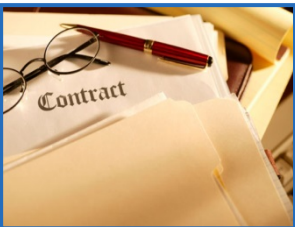
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- Extend Contract Term by 75 Years from December 31, 2035 to December 31, 2110

Questions

